

WATER/RSK/BMD/PTL/OE2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-4933
October 25, 2012

R E S O L U T I O N

(RES. W-4933), DEL ORO WATER COMPANY (DOWC), RIVER ISLAND AND STRAWBERRY DISTRICTS. AUTHORIZING A QUANTITY SURCHARGE OF \$0.041 PER 100 CUBIC FEET FOR TWELVE MONTHS IN THE RIVER ISLAND DISTRICT AND \$0.300 PER 100 CUBIC FEET FOR THIRTY-SIX MONTHS IN THE STRAWBERRY DISTRICT, TO RECOVER THE COST OF PURCHASED FUEL IN EXCESS OF THAT GRANTED IN THE LAST GENERAL RATE CASE, FOR THE PERIOD OF JANUARY 2011 TO DECEMBER 2011.

SUMMARY

By Advice Letters (ALs) 341 and 340, filed on June 8, 2012, DOWC, a Class B water utility, seeks to recover expenses of \$4,129.14 for River Island District and \$9,098.00 for Strawberry District, expended from January 2011 to December 2011, which have been recorded in its Transportation Memorandum Account (TMA)¹, for the cost of purchased fuel in excess of that granted in the last General Rate Case (GRC). This Resolution authorizes DOWC to collect a surcharge of \$0.041 per 100 cubic feet (1 Ccf) over a period of twelve months for its River Island District, and \$0.300 per 1 Ccf over a period of thirty-six months for its Strawberry District to recover costs incurred in these memorandum accounts.

BACKGROUND

DOWC has requested authority under General Order 96-B (GO 96-B) and Section 454 of the Public Utilities Code to increase rates to recover the cost of purchased fuel in excess of that granted in the last GRC for both districts, River Island and

¹ On March 19, 2009, through Advice Letter 213 effective March 19, 2009, the Commission granted DOWC the establishment of a Transportation Memorandum Account (TMA).

Strawberry. The River Island District's present rates became effective on May 30, 2012, pursuant to Res. W-4915, which granted an increase in revenues of \$122,929 or 32.40% for Test Year 2012 and \$31,143 or 6.20% for Escalation year 2013.

While the Strawberry District's present rates became effective on February 7, 2012, pursuant to Res. W 4903, which granted an increase in revenues of \$36,508 or 10.45%. Advice Letter 213, effective March 19, 2009, authorized DOWC to establish a TMA to track and recover costs in all of DOWC's Districts associated with fluctuations in fuel costs for its fleet of vehicles and other expenses in connection with fuel costs. The memorandum account also states that these expenses must be additional or incremental to those allowed in DOWC's last GRC proceeding for any particular district.

The total expense accrued in the TMA for River Island and Strawberry Districts, respectively, are \$4,129.14 and \$9,098.00.

NOTICE AND PROTESTS

ALs 341 and 340 were served on June 8, 2012, in accordance with the provisions of GO 96-B. A notice of the proposed rate increase was included with the June monthly billing to all River Island and Strawberry District customers on June 27, 2012. Three customer letters from the Strawberry District questioning the rate increase and complaining about the amount requested were timely received, and the utility replied.

DISCUSSION

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, fuel expenses which DOWC incurred in its TMA. The TMA was established on March 19, 2009, due to fluctuations in fuel costs.

On June 8, 2012, DOWC filed ALs 341 and 340 for its River Island and Strawberry Districts to recover the differences in the cost of fuel from that allocated in its last GRC. The differences in the actual cost of fuel and the amount estimated in the last GRC is due largely to the constant fluctuations in fuel prices. This has made it difficult to accurately estimate these costs, resulting in a wide margin of differences between the actual and the annual estimate for fuel costs in their last GRC.

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to show that: 1) it acted prudently when it incurred these costs; 2) the utility paid reasonable amounts for these costs; 3) the memorandum account

costs are not covered by other authorized rates; and 4) it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates. (See e.g., Ordering Paragraph 5 of Res. W-4824.)

Based on the events discussed above, we find that DOWC acted prudently in incurring the costs recorded in the TMA. These costs were incurred in order to provide service to its customers and keep the water districts running. It is apparent that the fluctuations in fuel costs was beyond the control of DOWC, and the utility has acted responsibly and appropriately by keeping track of these costs and ensure that services to the customers were not disrupted as a result of these costs.

With respect to the 2nd prong, Division of Water and Audits (Division) reviewed DOWC'S expenditures of \$4,129.14 and \$9,098.00 recorded in its ledger, which DOWC provided to Staff, and has found these expenditures to be prudent and reasonable.

With respect to the 3rd prong discussed above, Division has reviewed River Island and Strawberry Districts' last GRC, authorized in May 24, 2012 and February 1, 2012 respectively (see Res.W-4915 and W- 4903), and has ascertained that DOWC could not have anticipated the amount of fluctuations in the price of fuel. This led to a higher cost than that allocated for in their last GRC, and the expenses accrued the TMA could not have been included in the utility's rates. Therefore, DOWC did not receive revenue for the recently incurred expenses accrued in the TMA. Accordingly, recovering these expenses now would not amount to double recovery and is reasonable.

The Division finds it appropriate for ratepayers to pay for these costs, since they were accrued to provide them with water service and keep the company running, thereby ensuring that the utility has a reliable and sufficient water supply, which is beneficial to its customers. Accordingly, it is appropriate for ratepayers to pay for these category of costs in addition to otherwise authorized rates and, therefore, DOWC meets the 4th prong discussed above.

To minimize the impact of this amount on ratepayers, the surcharge has been spread over twelve months for the River Island District and thirty-six months for the Strawberry District. Per guidance in Standard Practice U-27-W, Rule 56b, memorandum account amortizations surcharges are to be spread over 3 years for under-collections over 10% of gross revenue. The sum of \$4,129.14 is under 10% of the current gross revenue of \$430,815 for River Island District. The Division recommends a surcharge of \$0.041 per 100 cubic feet per customer per month, for a period of twelve months. Also, the sum of \$9,098.00 is under 10% of the

current gross revenue of \$343,644 for Strawberry District. The Division recommends a surcharge of \$0.300 per 100 cubic feet per customer per month, for a period of thirty-six months. Spreading the sum of \$9,098 over a twelve month period might be considerably high, as such, DOWC has requested to spread it over thirty-six months instead of twelve to minimize the burden on the ratepayers of the Strawberry District and the Division concurs. These surcharges will not result in a rate of return greater than the last authorized for the River Island and Strawberry Districts.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, the draft resolution is being mailed to the utility, all protestants, and made available for public comment on September 25, 2012. No comments were received.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

FINDINGS

1. DOWC's River Island and Strawberry Districts request recovery of fuel costs due to fluctuations in fuel costs, which are in excess of that granted in their last GRC.
2. On June 8, 2012, DOWC filed ALs 341 and 340 for its River Island and Strawberry Districts to recover the difference in costs of fuel from that allocated in its last GRC.
3. The differences in actual cost of fuel and the amount estimated in the last GRC is due largely to the constant fluctuations in fuel prices.
4. As a result of these fluctuations, DOWC incurred and recorded in its TMA during the period from after January 1, 2011 through December 31, 2011, a total amount of \$4,129.14 and \$9,098.00 for its River Island and Strawberry Districts respectively.

5. The expenses recorded in DOWC's TMA of \$4,129.14 and \$9,098.00 are prudent, reasonable, and not covered by other authorized rates; also it is appropriate for rate payers to pay for these costs in addition to otherwise authorized rates.
6. DOWC could not have reasonably anticipated these expenses in the TMA in its last GRC, which became effective on May 30, 2012 for the River Island District and February 7, 2012 for the Strawberry District.
7. It is appropriate for ratepayers to pay for these costs, since they were accrued to provide water service to them, which is beneficial to its customers.
8. ALs 341 and 340 was served on June 8, 2012, in accordance with the provisions of General Order 96-B. A notice of the proposed rate increase was included with the February monthly billing to all River Island and Strawberry District customers on June 27, 2012, three protests were received and the utility replied.
9. DOWC should be permitted to transfer the amounts in the TMA to a balancing account for recovery.
10. DOWC should be permitted to recover the amounts in the balancing account by imposing a surcharge of \$0.041 per 100 cubic feet per customer per month for a period of twelve months and \$0.300 per 100 cubic feet per customer per month, for a period of thirty-six for its River Island and Strawberry Districts respectively.
11. This surcharge will not result in a rate of return greater than the last authorized for River Island and Strawberry Districts.

THEREFORE IT IS ORDERED THAT:

1. Del Oro Water Company, River Island and Strawberry Districts, are permitted to transfer the amounts of \$4,129.14 and \$9,098.00, respectively, in its Transportation Memorandum Account to a balancing account for recovery over a period of twelve and thirty-six months respectively. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Del Oro Water Company, River Island and Strawberry Districts, is permitted to recover the amounts in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$0.041 per 100 cubic feet for

twelve months in the River Island District and \$0.300 per 100 cubic feet for thirty-six months in the Strawberry District.

3. Del Oro Water Company, River Island and Strawberry Districts, shall track the revenue from the \$0.041 per cubic feet and \$0.300 per cubic feet monthly surcharge reflected in Ordering Paragraph 2 above in a balancing account and account for any over or under collected revenues in its next general rate case.
4. Within 5 days from the effective date of this resolution, Del Oro Water Company, River Island and Strawberry Districts, shall file a supplement to Advice Letters 341 and 340 to incorporate in its rate schedules the surcharge reflected in Ordering Paragraph 2 above, and concurrently cancel its presently effective Schedules RI-1, General Metered Service, and ST-1A, Annual Metered Service. The effective date of the revised rate schedules shall be five days after its filing.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on October 25, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners